



STATE OF UTAH
NATURAL RESOURCES
Oil, Gas & Mining

Norman H. Bangerter, Governor
Dee C. Hansen, Executive Director
Dianne R. Nielson, Ph.D., Division Director

355 W. North Temple • 3 Triad Center • Suite 350 • Salt Lake City, UT 84180-1203 • 801-538-5340

July 22, 1986

Ms. Maxine Cochran
Treasurer
Kelmine Corporation
11930 West 44th Avenue, Suite 200
Wheatridge, Colorado 80033

Dear Ms. Cochran:

Re: Collateral Bonding and Indemnity Agreement, Lisbon Valley Copper
Mine, ACT/037/032, San Juan County, Utah

Please complete the attached agreement and return to the
Division for final signatures by July 29, 1986. In addition,
Exhibit A, the legal description of the disturbed area must be
submitted and attached to the agreement.

Thank you very much for your cooperation. If you have any
questions, please call me.

Sincerely,

Pamela Grubaugh-Littig
Reclamation Engineer

jvb
cc: J. Whitehead
0141R-41

FILE COPY

NONCOAL
(February 1986)

State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
3 Triad Center, Suite 350
355 West North Temple
Salt Lake City, Utah 84180-1203
(801) 538-5340

COLLATERAL BONDING AND INDEMNITY AGREEMENT

THIS COLLATERAL BONDING AND INDEMNITY AGREEMENT entered into by and between Kelmine Corporation (hereinafter referred to as "Operator") and the Utah Division of Oil, Gas and Mining (hereinafter referred to as "Division"),

W I T N E S S E T H

WHEREAS, the Operator has obtained Program Permit No. ACT/037/032 (hereinafter referred to as "Permit") from the Division to conduct mining and reclamation activities at the Lisbon Valley Copper Mine in San Juan County, Utah, as a mine under the Utah Mined Land Reclamation Act, Utah Code Annotated, 40-8-1, et seq, 1953, as amended ("Act") and implementing regulations; on the disturbed areas designated in Exhibit A; and

WHEREAS, the Operator wishes to obtain a bond under 40-8-14(3); and

WHEREAS, the Operator has provided an irrevocable letter of credit issued by First Western National Bank of Utah (Exhibit B), naming the Division as Beneficiary, as collateral to secure this Collateral Bonding and Indemnity Agreement; and

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the Operator does hereby agree to be held and firmly bonds to the Division for the sum of 85,000 (1987 dollars) for the timely performance of reclamation responsibilities for Permit No. ACT/037/032 in lawful money of the United States. By the submission of this Irrevocable Letter of Credit will and truly binds itself, its successors and assigns, jointly and severally, by the conditions of this Agreement.

The conditions of the above obligations are such that:

1. The Operator shall perform all duties and fulfill all requirements applicable to mining and reclamation as set forth in the Act, and regulations adopted pursuant to the Act and the conditions of Permit No. ACT/037/032 issued by the Division.
2. The liability under this Agreement is conditioned upon successful reclamation of the permit area as provided in the Mining and Reclamation Plan for Permit No. ACT/037/032 for a period of time and in the manner specified in the Act and regulations adopted pursuant thereto as amended from time to time, and the conditions set forth in Permit No. ACT/037/032 issued by the Division.

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

3. The Operator does hereby jointly and severally agree to indemnify and hold the Division harmless from any claim, demand, liability, cost, charge or suit brought by a third party, as a result of the Operator's failure to abide by the terms and conditions of the Mining and Reclamation Plan as set forth in Permit No. ACT/037/032 and from any failure to comply with the terms of this Agreement.
4. Upon successful completion of part or all of the obligations secured hereby, the Operator may petition the Division for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall timely conduct an inspection to ascertain whether the duties and obligations of the Operator under the Act, regulations adopted pursuant thereto and Permit No. ACT/037/032 have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release the Operator from part or all of its obligations under this Agreement and shall file notice of such release of collateral held by the Division.
5. This agreement shall be reviewed periodically by the Division, or reviewed upon petition by the Operator, in accordance with the Act and implementing regulations and

the amount of liability under this agreement may be adjusted upon written agreement between the Operator and the Division where it is clearly established that the cost of future reclamation has materially changed.

6. This Agreement may be terminated upon ninety (90) days prior written notice to the Division if terminated by the Operator or upon ninety (90) days written notice to the Operator if terminated by the Division. Upon such written notification, the Operator will have ninety (90) days to obtain an alternate form of bond to secure reclamation obligations for Permit No. ACT/037/032 in the same amount as stated in this Agreement or amendments thereto.
7. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the Lisbon Valley Copper Mine permit area.
8. Any breach of the provisions of paragraph #8 of this Agreement will result in the payment of \$85,000 (bond amount) liquidated damages to the Division.
9. This Agreement will be governed and interpreted according to Utah law.

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

SO AGREED this _____ day of _____, 19__.

By _____
Corporate Officer - Position

STATE OF UTAH, DEPARTMENT OF
NATURAL RESOURCES, DIVISION OF
OIL, GAS AND MINING

By _____
Gregory P. Williams
Board Chairman

APPROVED AS TO FORM:

Assistant Attorney General

STATE OF _____)
COUNTY OF _____) ss:

On the _____ day of _____, 198__, personally appeared
before me _____ and _____ who
being by me duly sworn did say that he/she, the said _____
_____ is the _____ of _____
_____ and said instrument was signed in behalf
of said corporation by authority of its bylaws or a resolution of
its board of directors and said _____
and _____ duly acknowledged to me that said
corporation executed the same.

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

Notary Public

Residing at: _____

My Commission Expires:

STATE OF _____)
COUNTY OF _____) ss:

On the ____ day of _____, 198__, personally appeared before me Mr. Gregory P. Williams, who being by me duly sworn did say he, the said Mr. Gregory P. Williams is the Board Chairman of the Board of Oil, Gas and Mining, Department of Natural Resources, state of Utah, and he duly acknowledged to me that said Board executed the foregoing document by authority of law on behalf of the state of Utah.

Notary Public

Residing at: _____

My Commission Expires:
